

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0076-01  
Bill No.: HB 56  
Subject: Taxation and Revenue-General; Elderly; Public Assistance  
Type: Original  
Date: February 6, 2001

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**FISCAL SUMMARY**

| <b>ESTIMATED NET EFFECT ON STATE FUNDS</b>                          |  |  |  |
|---|--|--|--|
| <b>FUND AFFECTED</b>  | <b>FY 2002</b>                         | <b>FY 2003</b>                         | <b>FY 2004</b>                         |
| General Revenue   | Could exceed<br>(\$23,081,594)         | Could exceed<br>(\$65,788,462)         | Could exceed<br>(\$68,141,762)         |
|   |  |  |  |
| <b>Total Estimated<br/>Net Effect on <u>All</u><br/>State Funds</b> | <b>Could exceed<br/>(\$23,081,594)</b> | <b>Could exceed<br/>(\$65,788,462)</b> | <b>Could exceed<br/>(\$68,141,762)</b> |

| <b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>                          |                |                |                |
|---|----------------|----------------|----------------|
| <b>FUND AFFECTED</b>  | <b>FY 2002</b> | <b>FY 2003</b> | <b>FY 2004</b> |
|   |                |                |                |
|   |                |                |                |
| <b>Total Estimated<br/>Net Effect on <u>All</u><br/>Federal Funds</b> | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     |

| <b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b> |                |                |                |
|--|----------------|----------------|----------------|
| <b>FUND AFFECTED</b>                       | <b>FY 2002</b> | <b>FY 2003</b> | <b>FY 2004</b> |
| <b>Local Government</b>                    | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     |

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 11 pages.

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Revenue (DOR)** state the following:

**Current Property Tax Credit:** This legislation modifies the current property tax credit by increasing the credit from \$750 to \$2,000 and by increasing the income thresholds. Beginning January 1, 2002, the credit will equal 100% of the taxpayer's property taxes or rent, not to exceed \$2,000, as long as the taxpayer's income is \$30,000 or less for single filers, or \$40,000 or less for taxpayers married filing a combined return.

**New Property Tax Credit:** This legislation authorizes a new nonrefundable tax credit for taxpayers sixty-five or older equal to the amount of real and personal property taxes paid to support public schools during the tax year. The new tax credit must be reduced by the amount of the property tax credit given pursuant to sections 135.010 to 135.030.

**Sales Tax Exemption on Food:** This legislation also exempts sales tax on the retail sales of food to persons over the age of sixty-five.

### **ADMINISTRATIVE IMPACT:**

#### Current Property Tax Credit

The number of new taxpayers eligible for this tax credit is unknown at this time. In order to process the new credits, the Division of Taxation will need one Temporary Tax Season employee for every 12,000 additional claims received, one Tax Processing Technician I for every 50,000 additional errors created, and one Tax Processing Technician I for every 30,000 additional pieces of correspondence received. The Customer Assistance Bureau will need one Temporary Tax Season employee for every 642 additional walk-ins and one for every 12,000 additional telephone calls. The Department will request any FTE during the normal budget process.

This legislation will require modifications to the individual income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,471 hours of contract labor at a cost of \$49,838. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,570 is requested for implementation costs.

#### New Property Tax Credit

The number of taxpayers eligible for this tax credit is unknown at this time. The Division of Taxation estimates this credit will take an employee an additional 15 to 20 seconds per return to verify. In order to maintain current processing levels, the Department will need one Temporary

ASSUMPTION (continued)

Tax Season employee for every 65,000 returns impacted by this credit, and one Tax Processing Technician for every 30,000 pieces of additional correspondence received. The Department will request any additional FTE during the normal budget process.

This legislation will require modifications to the individual income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor at a cost of \$46,171. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$6,752 is requested for implementation costs.

Sales Tax Exemption on Food

The Division of Taxation assumes the additional burden on retail businesses selling food will increase the number of walk-ins and phone calls received at the local field offices. One Field Agent will be needed for every 4,600 additional phone calls received each year and one Field Agent for every 1,285 additional walk-ins per year. These additional FTE will be requested during the normal budget process after the Department determines the impact to the local field offices.

This legislation will require modifications to the business tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 2,768 hours of contract labor at a cost of \$92,340. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,086 is requested for implementation costs.

Officials from the **Office of Administration - Budget and Planning (BAP)** state that a portion of HB 56 would exempt persons 65 and over from the remaining statutory one-cent sales Missouri Tax Commission levied on food for off-premise consumption. I will address the impact of this provision.

For 2001, the "Tax Expenditure Report" estimates the general revenue loss from the food sales tax exemption to be \$252 million. This implies taxable food sales of \$8,400 million. Thus exempting food from the cent tax would cost about \$84 million if all persons qualified.

Missouri's non-institutionalized elderly population is about 675,000, which is about 12% of total population. Thus, this exemption would result in a revenue loss of \$10.1 million in 2001. The loss would be to the School District Trust Fund and not to general revenue. I recommend a growth rate of 3 percent for the out-year estimates.

The senior citizen property tax credit would be expanded by allowing up to a \$2,000 credit for

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households with households income of \$30,000 for singles and \$40,000 for married filers.

Under this guideline, about 70% of senior households would qualify. Currently residential property taxes total \$1,700 million. If we assume seniors pay 12% of this total which is the senior share of non-institutional population, then their property tax contribution is \$204 million less the current rebate program which pays out about \$71 million. The remaining amount equals \$133 million. This program would eliminate 70% of \$133 million or \$93 million at 100% participation by those who are eligible. I offer no judgement as to likely population rate.

Officials from the **Department of Social Services (DOS)** assume the following:

Asset Limits and Resources

Section 208.151.12 states that when determining the eligibility of claimants for public assistance, the current asset limit is \$1,000 for an individual and \$2,000 for couples. This bill proposed increasing these limits to \$4,000 for individuals and \$6,000 for couples.

Also proposed is that when determining eligibility for Medicaid and Medicare benefits, "resources" will not include the cash value of an insurance policy.

Expanding Medicaid Eligibility by Increasing Asset Limits

Section 208.151.2 will expand Medicaid eligibility by increasing asset limits to \$4,000 for a single person and \$6,000 for a married couple. DOS will also apply to the federal government for the necessary waivers to increase these limits.

**DOS - Division of Aging (DA)** does not anticipate any fiscal impact from the proposed provisions dealing with tax credits and exemption from sales tax on food.

Division of Aging, Institutional Services does not anticipate the need for additional staff at this time. However, if the number of individuals in future years resulted in new facilities being certified for Medicaid/Medicare participation, then Institutional Services will need to request additional staff for inspection, survey and complaint investigations based on the increase in the number of providers.

Home and Community Services anticipate the need for an additional twenty-eight (28) Social Service Worker II positions the first year this legislation is implemented, then an additional one (1) for each of the two following years. This totals thirty (30) new Social Service Worker II positions by the third year of implementation. These SSW II positions will be responsible for the investigation of hotlines, pre-long-term care screening, the eligibility determination and authorization of state-funded in-home services. Also anticipated will be an additional three (3) Home and Community Services Area Supervisor positions to supervise the SSW II positions and

ASSUMPTION (continued)

to provide oversight and accountability for the performance of the SSWs including case review, evaluation and guidance; and acting as the first point of contact for complaint resolution when clients are dissatisfied with services or staff performance. Three (3) Clerk Typist II positions will be needed to provide clerical support to the Area Supervisors and Social Service Workers.

**DOS - Division of Legal Services** officials assume for the proposed asset limits in this proposal, DFS projects that there would be a total of 73,933 new persons eligible to apply for Medicaid under the expanded asset limits. DFS suggests that there would be a 5% application and approval rate.

For the purposes of this fiscal note, assume that, of the 73,933 nominally eligible persons, 1% were found to be not eligible and requested a hearing to appeal that finding. This would result in 739 new hearings per year in the Hearings Unit of the Division of Legal Services. Assuming four (4) hours per case for a Hearing Officer to process each appeal, from onset to final decision, Hearing Officers would expend 2,956 hours on these 739 hearings and would require 1.5 additional Hearing Officers to properly handle the additional workload ( $4 \text{ hours/case} \times 739 \text{ cases} = 2,956 \text{ hours}$ / $2,080 \text{ hours per attorney year} = 1.42 \text{ new attorneys}$ ). Assuming two (2) hours per case for the hearings support staff to process each appeal from onset to final decision, the hearings support staff would expend 1,024 hours on the 512 new cases, and would require an additional .75 FTE, or one additional support staff to properly process the increased caseload ( $2 \text{ hours per case} \times 739 \text{ cases} = 1,478 \text{ hours}$ / $2,080 \text{ hours per staff year} = .71 \text{ support staff}$ ).

For the purposes of this fiscal note, assume that, of the 739 cases in which persons requested a hearing to appeal an adverse determination, that 10%, or 74, filed an affidavit to further appeal an adverse decision to the circuit court. Assuming 40 hours for the Litigation Unit to process each appeal, from onset to final judgement, the Litigation Unit would expend 2,960 hours on the 74 new petitions for judicial review, requiring 1.5 new attorneys ( $40 \text{ hours per case} \times 74 \text{ new cases} = 2,960 \text{ hours}$ / $2,080 \text{ hours per attorney year} = 1.42 \text{ attorneys}$ ) and .75 FTE additional support staff (based on a 1:2 ratio of staff to attorneys).

**DOS - Division of Family Services (DFS)** officials supplied the following table:

|                                       |              |
|---------------------------------------|--------------|
| FY 02                                 |              |
| Eligibles with higher Resources       | \$41,747,664 |
| Medicaid Coverage for Families        | \$4,737,600  |
| Additional Cost from Claim Processing | \$147,000    |
| Total                                 | \$46,632,264 |

|                                       |              |
|---------------------------------------|--------------|
| FY 03                                 |              |
| Eligibles with higher Resources       | \$83,404,519 |
| Medicaid Coverage for Families        | \$6,010,805  |
| Additional Cost from Claim Processing | \$147,000    |
| Total                                 | \$69,562,324 |
| FY 04                                 |              |
| Eligibles with higher Resources       | \$68,525,922 |
| Medicaid Coverage for Families        | \$6,376,274  |
| Additional Cost from Claim Processing | \$147,000    |
| Total                                 | \$75,049,196 |

Officials from the **Department of Natural Resources (DNR)** state this proposal would exempt all persons 65 years of age and older from the 1% tax on the retail sale of food. This proposal would have no fiscal impact on DNR.

The **Department of Mental Health (DMH)** officials state Sections 135.025, 135.030 & 135.040 change the laws surrounding property tax credits. Section 144.014.1 exempts people over age 65 from sales tax on food. These changes should have no direct fiscal impact on DMH.

Section 208.010.2 (4) changes the resource limitation from \$1,000 to \$4,000 for a single person, and from \$2,000 to \$6,000 for married persons. This would raise the limit on the amount of resources an individual may have and still become eligible for benefits. However, it is unknown how many clients are not eligible now that would become eligible if the resource limitations were increased. Therefore, DMH states it is hard to estimate the amount of savings, if any, that would occur if this legislation were to pass.

Section 208.151.2 says DOS shall expand eligibility under the Medicaid program by increasing the current asset limits as stated in the previous paragraph. This section says DOS must apply for necessary waivers or amendments to accommodate this change.

DMH expects the impact to be minimal, because it is believed that the majority of DMH current clients are denied Medicaid eligibility based on the income limits rather than the resource ceiling. However, there is a potential minimal cost savings to DMH if any existing DMH clients become Medicaid eligible through this provision. Services provided by contracted providers to non-Medicaid eligible clients are paid at 100%. With the increase in resource ceilings, some of those

ASSUMPTION (continued)

clients could become Medicaid eligible, and the department would then be reimbursed by Medicaid for 60% of those charges. If our state operated facilities provide covered services to any newly eligible clients, there would be a very minimal increase in general revenue.

A dollar amount cannot be determined on the fiscal impact of potentially new revenue nor on the cost savings, because DMH does not have any statistics on how many clients are currently not eligible due to the resource ceiling.

Officials from the **Department of Highways and Transportation (DHT)** state this legislation makes various changes to Medicaid and Medicare benefits and exempts the elderly from sales tax on food. DHT assumes no fiscal impact from this bill.

**Oversight** received information from the University of Missouri Research Center for the amount of total property tax credits claimed. The University of Missouri Research Center stated for tax year 1999 there were 175,092 senior citizen property tax credit returns filed with a total of \$69,979,829 in property tax credits claimed. The projected number of circuit breaker tax credits for this proposal could be around \$102.9 million. The difference of \$33 million would be the minimum loss to General Revenue for this proposal. This estimate does not attempt to reflect the newly eligible households.

**This legislation will decrease total state revenues.**

| <u>FISCAL IMPACT - State Government</u>                    | FY 2002<br>(10 Mo.)            | FY 2003                        | FY 2004                        |
|--|--------------------------------|--------------------------------|--------------------------------|
| <b>GENERAL REVENUE FUND</b>                                |                                |                                |                                |
| <u>Loss - General Revenue Fund</u>                         |                                |                                |                                |
| Increase in Property Tax Credit                            | \$0                            | (\$32,956,549 to<br>Unknown)   | (\$32,956,549 to<br>Unknown)   |
| Loss of 1% collection fee on sales tax<br>revenue on food. | (\$101,000)                    | (\$104,030)                    | (\$107,151)                    |
| Increase in the asset limits for Medicaid                  | (\$16,269,065)                 | (\$24,708,741)                 | (\$26,704,552)                 |
| Expanding Medicaid to Families                             | (\$4,737,600)                  | (\$6,101,805)                  | (\$6,376,274)                  |
|  | (Unknown >                     | (Unknown >                     | (Unknown >                     |
| Cash Surrender Value                                       | <u>\$100,000</u>               | <u>\$100,000</u>               | <u>\$100,000</u>               |
| Total Loss - GR Funds                                      | Could Exceed<br>(\$21,207,665) | Could Exceed<br>(\$63,971,125) | Could Exceed<br>(\$66,244,523) |

| <u>FISCAL IMPACT - State Government</u>                 | FY 2002<br>(10 Mo.)                         | FY 2003                                   | FY 2004                                   |
|---|---|---|---|
| <u>Cost - Dept. of Revenue</u>                          |   |   |   |
| Personal Service  | (Unknown)                                   | (Unknown)                                 | (Unknown)                                 |
| Fringe Benefits   | (Unknown)                                   | (Unknown)                                 | (Unknown)                                 |
| Expense and Equipment                                   | (Unknown)                                   | (Unknown)                                 | (Unknown)                                 |
| Programming changes                                     | <u>(\$213,757)</u>                          | <u>\$0</u>                                | <u>\$0</u>                                |
| Total Costs - DOR                                       | (\$213,757 to Unknown)                      | (Unknown)                                 | (Unknown)                                 |
| <u>Cost - DOS, Division of Aging</u>                    |   |   |   |
| Personal Service (23.4 FTE)                             | (\$611,384)                                 | (\$774,727)                               | (\$817,387)                               |
| Fringe Benefits   | (\$203,774)                                 | (\$258,217)                               | (\$272,435)                               |
| Expense and Equipment                                   | <u>(\$239,474)</u>                          | <u>(\$171,906)</u>                        | <u>(\$179,231)</u>                        |
| Total Cost - DOS  | (\$1,054,632)                               | (\$1,204,850)                             | (\$1,269,053)                             |
| <u>Cost - DOS, Division of Legal Services</u>           |   |   |   |
| Personal Service (2.19 FTE)                             | (\$56,408)                                  | (\$69,410)                                | (\$71,145)                                |
| Fringe Benefits   | (\$18,801)                                  | (\$23,134)                                | (\$23,713)                                |
| Expense and Equipment                                   | <u>(\$25,190)</u>                           | <u>(\$22,380)</u>                         | <u>(\$23,052)</u>                         |
| Total Cost - DOS  | (\$100,399)                                 | (\$114,925)                               | (\$117,910)                               |
| <u>Cost - DOS, Division of Family Services</u>          |   |   |   |
| Personal Service ( FTE)                                 | (\$270,135)                                 | (\$332,399)                               | (\$340,709)                               |
| Fringe Benefits   | (\$90,036)                                  | (\$110,789)                               | (\$113,558)                               |
| Expense and Equipment                                   | <u>(\$144,970)</u>                          | <u>(\$54,375)</u>                         | <u>(\$56,006)</u>                         |
| Total Cost - DOS  | (\$505,141)                                 | (\$497,562)                               | (\$510,273)                               |
| <b>ESTIMATED NET EFFECT ON<br/>GENERAL REVENUE FUND</b> | <b>Could Exceed<br/><u>\$23,081,594</u></b> | <b>Could Exceed<br/><u>\$65788462</u></b> | <b>Could Exceed<br/><u>\$68141762</u></b> |
| <u>Loss to School District Trust Fund</u>               |   |   |   |
| Food sales tax exemption                                | (\$10,100,000)                              | (\$10,402,000)                            | (\$10,715,090)                            |
| <b>ESTIMATED NET EFFECT TO<br/>ALL STATE FUNDS</b>      | <b><u>\$0</u></b>                           | <b><u>\$0</u></b>                         | <b><u>\$0</u></b>                         |
| <u>FISCAL IMPACT - Federal</u>                          | FY 2002<br>(10 Mo.)                         | FY 2003                                   | FY 2004                                   |



| <u>FISCAL IMPACT - State Government</u>              | FY 2002<br>(10 Mo.)              | FY 2003                          | FY 2004                          |
|--|----------------------------------|----------------------------------|----------------------------------|
| <b>FEDERAL FUNDS</b>                                 |                                  |                                  |                                  |
| Income - DOS   | \$26,500,995 to                  | \$39,710,623 to                  | \$42,921,908 to                  |
| Reimbursements                                       | Unknown                          | Unknown                          | Unknown                          |
| <u>Cost - DOS, Division of Aging</u>                 |                                  |                                  |                                  |
| Personal Service (12.6 FTE)                          | (\$329,207)                      | (\$417,161)                      | (\$440,132)                      |
| Fringe Benefits                                      | (\$109,725)                      | (\$139,040)                      | (\$146,696)                      |
| Expense and Equipment                                | <u>(\$128,946)</u>               | <u>(\$92,564)</u>                | <u>(\$38,226)</u>                |
| Total Cost - DOS                                     | (\$567,878)                      | (\$548,765)                      | (\$625,054)                      |
| <u>Cost - DOS, Division of Legal Services</u>        |                                  |                                  |                                  |
| Personal Service (2.19 FTE)                          | (\$59,396)                       | (\$73,086)                       | (\$74,913)                       |
| Fringe Benefits                                      | (\$19,797)                       | (\$24,360)                       | (\$24,969)                       |
| Expense and Equipment                                | <u>(\$26,524)</u>                | <u>(\$23,566)</u>                | <u>(\$24,273)</u>                |
| Total Cost - DOS                                     | (\$105,717)                      | (\$121,012)                      | (\$124,155)                      |
| <u>Cost - DOS, Division of Family Services</u>       |                                  |                                  |                                  |
| Personal Service ( FTE)                              | (\$133,052)                      | (\$163,719)                      | (\$167,812)                      |
| Fringe Benefits                                      | (\$44,346)                       | (\$54,567)                       | (\$55,932)                       |
| Expense and Equipment                                | <u>(\$71,403)</u>                | <u>(\$26,782)</u>                | <u>(\$27,585)</u>                |
| Total Cost - DOS                                     | (\$248,801)                      | (\$245,068)                      | (\$251,329)                      |
| <u>Loss - DOS</u>                                    |                                  |                                  |                                  |
| Increase in the asset limits for Medicaid            | (\$25,478,599)                   | (\$38,695,778)                   | (\$41,821,370)                   |
| Expanding Medicaid to Families                       | \$0                              | \$0                              | \$0                              |
| Cash Surrender Value                                 | (Unknown ><br><u>\$100,000</u> ) | (Unknown ><br><u>\$100,000</u> ) | (Unknown ><br><u>\$100,000</u> ) |
| Total loss - DOS                                     |                                  |                                  |                                  |
| <b>ESTIMATED NET EFFECT TO<br/>ALL FEDERAL FUNDS</b> | <b><u>\$0</u></b>                | <b><u>\$0</u></b>                | <b><u>\$0</u></b>                |
| <u>FISCAL IMPACT - Local Government</u>              | FY 2002<br>(10 Mo.)              | FY 2003                          | FY 2004                          |
| <b>ESTIMATED NET EFFECT TO<br/>LOCAL GOVERNMENT</b>  | <b><u>\$0</u></b>                | <b><u>\$0</u></b>                | <b><u>\$0</u></b>                |

### FISCAL IMPACT - Small Business

This legislation may increase the burden on small businesses selling food.

### DESCRIPTION

This bill provides tax-related and other forms of assistance to senior citizens and low-income individuals. The provisions providing assistance to senior citizens are:

- (1) An increase in the property tax credit for senior citizens, commonly known as the "circuit breaker" tax credit, from \$750 to \$2,000, effective January 1, 2002. Eligible taxpayers who are single with an income of \$30,000 or less and those who are married with a combined income of \$40,000 or less are eligible for a circuit breaker tax credit equal to the lesser of the taxpayer's property taxes or rent, or \$2,000, effective January 1, 2002;
- (2) Beginning in tax years after December 31, 2001, a nonrefundable income tax credit is available to taxpayers who are 65 years of age or older. The tax credit is equal to the lesser of zero or the amount of real and personal property taxes paid to support public schools less the amount of any circuit breaker tax credit received;
- (3) An exemption for all persons 65 years of age and older from the 1% tax on the retail sale of food; and
- (4) An exemption of the cash value of an insurance policy from the resources used to determine eligibility for Medicaid and Medicare benefits.

Provisions providing assistance to low income persons include requiring the Department of Social Services to apply for any needed federal waivers to increase the asset limits for Medicaid eligibility from \$1,000 to \$4,000 for single persons, and from \$2,000 to \$6,000 for married couples. The bill also changes all references in the existing statutes authorizing health care for uninsured children to health care for uninsured families, thereby expanding medical coverage for the uninsured to certain low-income persons above age 19.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue  
Office of Administration  
    Budget and Planning  
Department of Social Services  
    Division of Aging  
    Division of Legal Services  
    Division of Family Services  
University of Missouri  
    Research Center  
Department of Natural Resources  
Department of Mental Health  
Department of Highways and Transportation



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Jeanne Jarrett, CPA  
Director

February 6, 2001